



BUDGET COMMITTEE

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For Immediate Release

November 13, 2009

BUDGET PERSPECTIVE: UNUSED TARP AUTHORITY WILL NOT REDUCE THE DEBT

Several news articles (excerpts in blue below) on November 12, 2009 reported on statements by OMB Director Orszag regarding unused authority under Treasury's Troubled Asset Relief Program (TARP). Here are some caveats to keep in mind when reading media reports on this understandably confusing area of the budget.

The bottom line, however, is: just because the Administration is now realizing what we've already known for many months – that not all the TARP authority is likely to be needed – doesn't mean that helps us with our medium-term deficit and debt situation. The federal government will still have deficits approaching \$1 trillion per year for the next 10 years unless the Administration shows some leadership on fiscal policy.

"The administration wants to keep some of the unspent funds available for emergencies, but is considering setting aside a chunk for debt reduction, according to people familiar with the matter."

- The Administration does not have the ability "set aside a chunk [of unspent TARP funds] for debt reduction" because that statement is a non sequitur. If Treasury has not extended \$X billion of assistance yet, then it hasn't had to borrow the money; so not ever spending the money just means that you never have to go out and borrow the money in the first place.
- At best, not using all available TARP authority just means that, everything else equal, the debt might not increase as much as we thought it might have if we had used all of the TARP authority. But that is not debt reduction. That is just getting lucky.
- Not using all available TARP authority would not reduce the debt in the way that repaid TARP principal and dividends reduce the debt.
- Not using all available TARP authority would not reduce the debt like the debt was reduced in 1998-2001 when the federal government ran a budget surplus.

"It is also expected to lower the projected long-term cost of the program -- the amount it expects to lose -- to as little as \$200 billion from \$341 billion estimated in August."

- Structural deficit reduction occurs when the government changes the law to reduce current-law spending commitments or to increase current-law revenue demands. Debt reduction occurs when the government runs a surplus or receives payments under means of financing.
- The announcement of perhaps not using all of the TARP authority is neither structural deficit nor debt reduction. It is simply a revised, newer estimate based on updated real-world information on the implementation of TARP so far and the prospects for future use.

- The Administration's August Mid-Session review estimated that Treasury would use all of the \$700 billion in TARP authority, with an associated deficit impact of \$235 billion in 2009, \$70 billion in 2010, and \$36 billion from 2011-2016.
- But CBO's August baseline had assumed that the Administration would only use \$600 billion of the \$700 billion in authority, with a total deficit impact of \$240 billion.

"The idea is still a matter of debate within the administration and it is unclear how much impact it would have on the nation's mounting deficit levels."

- Changing a baseline TARP estimate so that it shows some of the TARP authority not being used would have a negligible effect on the Administration's projected deficits over the next 10 years (maybe 1%).

"On the \$700 billion Troubled Asset Relief Program, the administration is considering a change that may appear to improve the fiscal situation. Agreeing not to spend a certain amount of TARP money will enable the White House, in its budget projections, to assume less money out the door and, therefore, less debt issued. The move would also reduce the deficit by an unknown amount since a certain level of spending and borrowing is already factored into estimated future deficits."

- Pretty much true, but silly.
- It's also doesn't follow to say the Administration would be "agreeing not to spend a certain amount of TARP money" or not. Who is the Administration "agreeing" with, itself?
- When TARP was enacted, the Administration thought it would use all of the authority. Now Treasury can't find enough things to use TARP authority for. As reality changes, baseline estimates change. It happens all the time. It just means the initial estimates were too pessimistic (assumed economy would be so bad that Treasury would have to use all of its authority) and now the next set of Administration estimates will catch up to reality.

"Budget experts said committing some TARP funds toward debt reduction could help calm concerns about the size and intent of the program. . .The move could buy the Treasury Department time before it hits the so-called debt ceiling, which limits the amount of money the U.S. can borrow. Already, some members of Congress have said they won't approve an increase in the \$12.1 trillion debt cap unless efforts to reduce the deficit are included."

- This is silliest "take-away" from the Administration's TARP musings. The Administration can't commit unused TARP funds to debt reduction. That is not a do-able thing (though announcing that the Administration doesn't plan to use all of the TARP authority may well "help calm concerns about the size and [the Administration's] intent" about what it is going to use TARP authority for).
- Director Orszag is suggesting that the President's 2011 budget to be released in February will have a revised (lower) estimate of how much TARP authority will be used, but this **will not buy the Treasury Department ANY time before it hits the \$12.1 trillion debt ceiling.** Treasury will be up against that ceiling in the next month and won't make it past Dec. 31 based on what it expects to be spent (and received in taxes) over the next six weeks. Treasury's cash management projections already reflect that not much more of TARP funds are going to be used than have already been used.
- Even if over the next month some more banks repay (earlier than expected) the principal amount of assistance extended to them under the TARP Capital Purchase Program, those amounts will pay down some debt, but not likely enough to materially affect when we need to raise the debt limit.